

Message Text

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ACTION EB-11

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FM AMEMBASSY BUENOS AIRES

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C O N F I D E N T I A L BUENOS AIRES 6985

E.O. 11652: GDS

TAGS: ETEL, EINV, AR

SUBJ: ENTEL CONTRACTS WITH STANDARD ELECTRIC

REF: BA 6905

1. MANAGING DIRECTOR OF STANDARD ELECTRIC (ITT MANUFACTURING AFFILIATE) RICARDO GABRIELLONI AND ITT VICE-PRESIDENT CHARLES SILVER OF NEW YORK HEADQUARTERS CALLED ON ME SEPT 16 TO REVIEW STANDARD ELECTRICS PROBLEM WITH ARGENTINE NATIONAL TELEPHONE CO. (ENTEL). THEY EXPLAINED THAT AS RESULT OF DETERIORATION IN RELATIONSHIP BETWEEN STANDARD AND ENTEL, COMPANY NOW IN UNTENABLE POSITION AS IT WILL SOON HAVE TO OBTAIN SUBSTANTIAL ADDITIONAL OUTSIDE FUNDS TO MAINTAIN OPERATIONS WITHOUT ANY ASSURANCE OF ITS FUTURE POSITION IN ARGENTINA. THEY REFERRED TO EVENTS OVER LAST TWO YEARS AS FORM OF CREEPING EXPROPRIATION OF STANDARD BY GOA.

2. THEY STATED THAT DECREE BASED ON RECENT CONGRESSIONAL ACTION (REFTEL) WILL TAKE EFFECT THIS WEEK, ANNULLING 1969 DECREE LAW WHICH ENDORSED EXISTING CONTRACTS BETWEEN STANDARD AND ENTEL. ITT LAWYERS PRESENTLY ASCERTAINING LEGAL STATUS OF CONTRACTS THEMSELVES UPON CANCELLATION OF LAW, BUT IT APPEARS THAT ADDITIONAL DECREE MAY BE REQUIRED TO ACTUALLY CANCEL CONTRACTS. THEY EXPRESSED THEIR CONTINUED WILLINGNESS TO SEEK MUTUALLY AGREEABLE
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SETTLEMENT WITH ENTEL ON AMOUNTS OWED UNDER OLD CONTRACTS,

BUT DESPITE REPEATED ASSURANCES FROM VARIOUS GOA OFFICIALS THAT COMMISSION WOULD BE ESTABLISHED TO SETTLE RESPECTIVE OBLIGATIONS OF STANDARD AND ENTEL UNDER OLD CONTRACTS AND TO NEGOTIATE NEW CONTRACTS, THIS HAS NOT YET OCCURRED. STANDARDS MANAGING DIRECTOR NOW SEEKING MEETING WITH MRS. PERON IN FURTHER ATTEMPT TO PRESENT ITS CASE.

3. FINANCIAL SITUATION OF STANDARD DESCRIBED AS INCREASINGLY SEVERE. ENTEL MADE ONLY NOMINAL PAYMENTS AGAINST CONTRACTS SINCE DECEMBER 1972 BUT REQUESTED CONTINUED OPERATION OF FACTORY. SIGNIFICANT AMOUNTS OF FUNDS WERE REQUIRED TO SUPPORT THIS OPERATION. COMPANY HAS REDUCED PAYROLL FROM OVER 4,000 IN 1972 TO ABOUT 2,300 AT PRESENT TIME, BUT WORKFORCE STILL EXCESSIVE RELATIVE TO REDUCED PRODUCTION LEVEL. ENTEL'S DEBT TO STANDARD UNDER CONTRACTS NOW CALCULATED BY COMPANY AS OVER 600 MILLION PESOS (US 60 MILLION) INCLUDING INTEREST AND PENALTIES. SINCE JULY 1974, ENTEL HAS MADE PAYMENTS TALLING ABOUT US 6 MILLION, BUT COMPANY NOW INFORMED BY MINISTRY OF LABOR THAT THESE FUNDS ONLY TO BE APPLIED TO WAGES AND SALARIES. UNDER PRESENT CONDITIONS, COMPANY ESTIMATES IT LOSING ABOUT US 3 MILLION PER MONTH, WITH TOTAL LOSSES DURING 1974 LIKELY TO REACH US 30 MILLION. ITT REPRESENTATIVES STATED THAT STANDARD WILL NEED APPROXIMATELY US 15 MILLION IN NEW FINANCIAL ASSISTANCE BETWEEN NOW AND OCT 4 FOR OPERATIONS AND TO MEET MATURING OBLIGATIONS. LOCAL CREDIT BEING SHUT OFF DUE TO UNCERTAINTY SURROUNDING COMPANY'S FUTURE. IF ITT UNWILLING TO COMMIT THIS ADDITIONAL AMOUNT, STANDARD COULD GO INTO RECEIVERSHIP, WITH RESULTING LOSS OF EMPLOYMENT.

4. ITT PREVIOUSLY HAD INDICATED WILLINGNESS TO ACCEPT 20 PERCENT ENTEL OWNERSHIP OF STANDARD. ON SEPT 12TH, GABRIELLONI INFORMED BY SECRETARY OF COMMUNICATIONS OF MINISTRY OF ECONOMY THAT GOA WISHED TO ACQUIRE 51 PERCENT OWNERSHIP IN STANDARDS MANUFACTURING FACILITIES (THIS WOULD APPARENTLY NOT INCLUDE STANDARDS MAJORITY INTEREST IN BUENOS AIRES SHERATON HOTEL). SIMILAR OFFER UNDERSTOOD TO HAVE BEEN MADE TO SIEMENS. GABRIELLONI NOW INFORMED CONFIDENTIAL

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BY OTHER SOURCES, HOWEVER THAT HIS OFFER MADE WITHOUT APPROVAL OF MINISTER OF ECONOMY. ITT REPRESENTATIVES ADVISED EMBASSY THAT WHILE OFFER OF 20 PC INTEREST STILL STANDS, THEY UNABLE TO ACCEPT MINORITY PARTNERSHIP IN STANDARD WITH GOA.

5. GIVEN CONTINUING UNCERTAINTY AS TO STANDARDS FUTURE POSITION IN ARGENTINA, THEY BELIEVE ITT'S INTERESTS

WOULD BE BEST SERVED BY AN AGREED TAKEOVER OF STANDARD BY GOA WITH FAIR AND REASONABLE COMPENSATION FOR ITT'S INVESTMENT. THIS WOULD BE CLEARLY PREFERABLE TO EITHER ALLOWING COMPANY TO GO INTO RECEIVERSHIP OR TO CONTINUATION OF PRESENT IMPASSE WHICH IS GRADUALLY WEAKENING COMPANY.

6. WE HAVE MADE IT CLEAR TO ITT REPRESENTATIVES THAT EMBASSY REQUIRED INSTRUCTIONS FROM DEPARTMENT BEFORE IT ABLE TO TAKE ACTION IN THIS CASE. WE UNDERSTAND THAT ITT OFFICIALS WILL BE SEEKING APPOINTMENT IN DEPARTMENT OF STATE AT APPROPRIATE LEVEL TO PRESENT CASE THERE. WE WOULD APPRECIATE DEPARTMENTAL GUIDANCE BASED ON THOSE MEETINGS.

7. FOR THE DEPARTMENTS INFORMATION ONLY, WE ARE CONCERNED ABOUT DIFFICULTIES US FIRMS ARE RECENTLY FACING HERE. THE ITT SITUATION DEVELOPED OVER A PERIOD OF TIME, BUT WE NOW HAVE THE ESSO/CITIES SERVICE PROBLEM OF NATIONALIZATION OF PETROLEUM PRODUCTS DISTRIBUTION AND SEVERAL OTHER MINOR SITUATIONS AND INCIDENTS REPORTED BY FIRMS. WE WILL BE WATCHING THESE DEVELOPMENTS CLOSELY AND WILL REPORT FURTHER IF THEY APPEAR TO REFLECT DELIBERATE POLICY DIRECTED AGAINST US OR FOREIGN FIRMS IN GENERAL.
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